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GREECE-TURKEY-CYPRUS

In a conversation in Athens with Ambassador Tasca, Greek Foreign Minister Mavros was guardedly optimistic that a settlement could be found to resolve the outstanding issues between Greece and Turkey. Mavros complained about the Turks' present policy on Cyprus, however, and repeated his belief that Turkey has additional expansionist aims in the Aegean.

The Greek foreign minister said that in the long run, the only effective way to restore a satisfactory relationship between Greece and Turkey was through a package deal that would include solutions to both the Cyprus and the Aegean problems. Mavros indicated that his government would like to see Cyprus apportioned in accord with the island's population, but that it opposed an exchange of populations. He noted that if the present lines are maintained, the Turkish Cypriot population, which consists of 18 percent of the total, would control over one third of the island's territory and 70 percent of its resources.

Foreign Minister Mavros expressed limited optimism about the usefulness of the discussions in Cyprus between acting President Clerides and Turkish Cypriot leader Denktash, noting that the two "could just conceivably" make some progress. He said that UN Secretary General Waldheim's conversations in Athens earlier this week focused on refugee and relief operations and that Waldheim did not bring any new ideas on a political settlement.

Regarding the Soviet proposal for an expanded conference on the Cyprus situation, Mavros said his government recognized the propaganda character of the plan. Greece accepted the Soviets' proposal "in principle" to appease world and Greek public opinion, but it has warned the Soviet ambassador in Athens that Greece would walk out of any Soviet-sponsored discussions that do not deal directly with the implementation of the UN Security Council resolutions on withdrawal of foreign troops from Cyprus.

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Mavros added that Archbishop Makarios is a "passive factor" in the present circumstances and that his views would be important only in the event the parties to the dispute arrive at a settlement. According to Mavros, Makarios has agreed to notify Athens prior to undertaking any new initiatives. Makarios is seeking meetings with several heads of state, particularly those of France and the USSR.

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JAPAN

Japan's trade balance with the US has rapidly shifted into surplus. Sales to the US have grown faster than purchases during the last two months, producing monthly surpluses averaging about \$315 million. From January through May, Japan registered a deficit of about \$80 million with the US.

During the January-May period exports were 25 percent above the same period last year, but in the last two months growth rates of more than 40 percent have been recorded. Price rises account for much of the sales increases, but volume gains for cars, trucks, and motor-cycles have been substantial.

Japan's economic downturn is the basic cause of the slowdown in import growth. During the first five months, the value of imports was running 52 percent above the same period in 1973. In the last two months, the pace dropped to less than half that rate; declines in the value of aircraft and machinery purchases were major contributors. In recent months, the volume of imports from the US--especially agricultural goods and raw materials--has been considerably below levels a year ago.

At least for the next few months, Japan's trade surpluses with the US will remain fairly large. The growth in auto shipments is slowing, but sales of two other major items--steel and textiles--are gaining momentum. Purchases from the US will continue to register sizable gains in the coming months, especially with US farm prices likely to increase.

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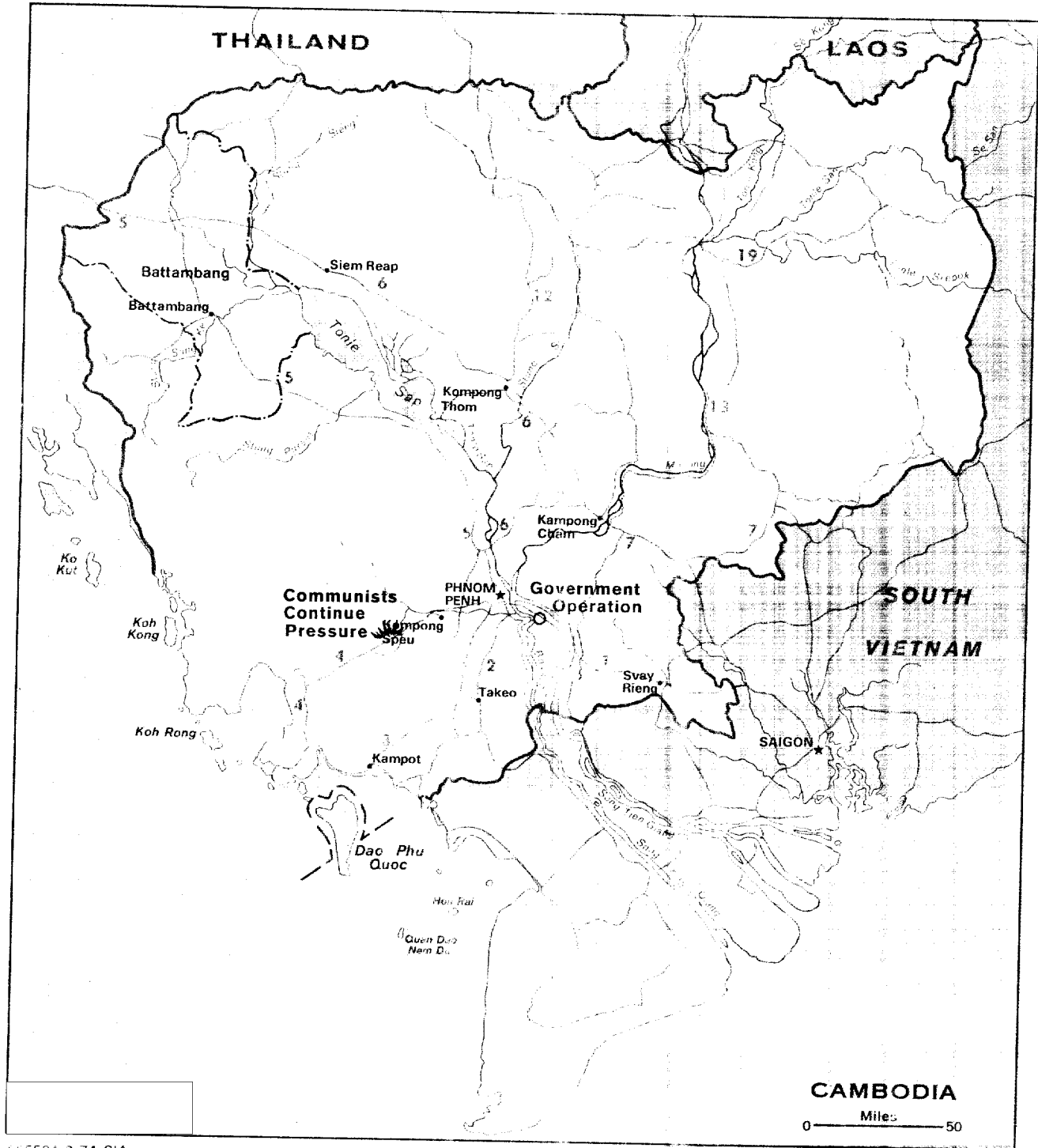
PORTUGAL

President Spinoia, with the support of armed forces chief Costa Gomes and a majority of military officers, has emerged in a strengthened position over the Armed Forces Movement Coordinating Committee. Spinoia may now act to eliminate the committee, which has obstructed enactment of significant legislation and interfered in other government and military affairs.

A recently circulated manifesto requested military officers to indicate whether the committee should be disbanded and the President given a public vote of confidence to continue the movement's programs using the hierarchical structure of the armed forces and the government. The result was an overwhelming victory for Spinoia. Regular officers staunchly share the President's determination to restore order, discipline, and the chain of command in the armed forces.

Moves are under way to reassign the politically active members of the Armed Forces Movement to overseas duty, and Communist-oriented officers are likely to be released from service.

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Cambodia: Seasonal flooding is slowing the major Cambodian army operation southeast of Phnom Penh and the units have achieved few of their major objectives so far. Nonetheless, the operation has apparently disrupted Khmer Communist efforts to fire rockets into the capital. In the countryside, government forces have launched a foray into Communist territory near the northwestern provincial capital of Siem Reap. The insurgents, meanwhile, have mounted fresh attacks in nearby Battambang Province, and they have increased pressure along Route 4 in the far southwest.

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